

SINGAPORE INVESTMENT CLIMATE REPORT

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INVESTMENT POLICY SUMMARY

Foreign investments, combined with investments through government-linked companies (GLCs), underpin Singapore's open, heavily trade-dependent economy. With the exception of restrictions in the financial services, professional services, and media sectors, Singapore maintains an open investment regime.

The government is strongly committed both to maintaining a free market and to taking a leadership role in planning Singapore's economic development. That role has traditionally relied heavily on industrial policy; the government's active use of the public sector as both an investor and catalyst for development has given rise to the characterization of Singapore as 'Singapore Inc.' While the Government asserts that government-linked companies (GLCs) account for just 13% of GDP, use of a broader definition of GLCs would boost that percentage. As of March 2004, GLCs accounted for some 40% of total capitalization of the Singapore stock exchange. The dominant role of GLCs in the commanding heights of the domestic economy has been criticized by some observers, who charge it has displaced private entrepreneurship. The government is now stressing measures to encourage such entrepreneurship, while still continuing a heavy state role in the economy.

Attracting foreign investment into the country - initially to spearhead industrialization and subsequently to climb the technological and value-added ladders - has been the other key economic strategy of the government. Through it, Singapore has evolved into a base for multinational companies (MNCs) to engage in high value-added manufacturing and product development, and coordinate regional procurement, production, marketing, and distribution operations. Singapore continues to have a sophisticated investment promotion strategy designed to attract major investment in high value-added manufacturing and service activities.

The Economic Development Board (EDB), Singapore's investment promotion agency, has a reputation for being highly responsive to changing business conditions and investor needs.

OPENNESS TO FOREIGN INVESTMENT

The country's legal framework and public policies are in general very friendly to foreign investors. Foreign investors are not required to enter into joint ventures or cede management control to local interests, and local and foreign investors are subject to the same basic laws. Apart from regulatory requirements in some sectors (financial and telecom services), the government screens investment proposals only to determine eligibility for various incentive regimes. Singapore places no restrictions on reinvestment or repatriation of earnings or capital. The judicial system upholds the sanctity of contracts, and decisions are effectively enforced.

LIMITS ON NATIONAL TREATMENT AND OTHER RESTRICTIONS

Exceptions to Singapore's general openness to foreign investment exist in broadcasting, the domestic news media, retail banking, legal and other professional services, and property ownership. In addition, under Singapore law, corporate Articles of Incorporation may include shareholding limits that restrict ownership by foreign persons. Some, but not many, companies include such shareholding restrictions.

Telecommunications

On April 1, 2000, Singapore removed all barriers limiting foreign entry to the telecommunications sector. Any foreign or domestic company can provide facilities-based (fixed line or mobile) or services-based (local, international and callback) telecom services. There is no foreign equity limits imposed on telecommunication licensees. The former monopoly telecom service provider, Singapore Telecom (SingTel), which is around 65% government-owned, faces competition in all market segments. The US-Singapore FTA ensures that U.S. telecom service providers obtain the right to interconnect with networks in Singapore on terms, conditions and cost-oriented rates that are transparent and reasonable.

Media

The local free-to air broadcasting, cable and newspaper sectors are effectively closed to foreign firms. Section 44 of the Broadcasting Act restricts foreign equity ownership of companies broadcasting to the Singapore domestic market to 49% or less, although the Act does

allow for exceptions to be made. The government also imposes limits on individual equity stakes in broadcasting companies. Part X of the Broadcasting Act, states that no person shall, without prior approval, hold more than 5% of the shares issued by a broadcasting company (the limit was 3% before 2002).

The Newspaper and Printing Presses Act restricts equity ownership (local or foreign) to 5% per shareholder without the need for prior approval. The Act also requires that all the directors of a newspaper company be Singapore citizens. The Act defines "newspaper" broadly as "any publication containing news, intelligence, reports of occurrences, or any remarks, observations or comments...printed in any language and published for sale or free distribution." Newspaper companies must issue two classes of shares, ordinary and management, with the latter only available to citizens of Singapore or corporations who or which have been approved by the Government. Holders of management shares have an effective veto over selected board decisions.

Following the Government's move to liberalize the media market in June 2000, the local media scene has evolved from that of a monopoly to a dual-player market. In practice all current local radio and television broadcasters are government-owned or government-linked. Currently, Singapore Press Holdings (SPH) and Media Corporation of Singapore (MCS) are the two principal newspaper licensees and broadcasting licensees. Prior to 2000, SPH held the principal newspaper license and MediaCorp the only broadcasting license. Being the incumbents in their respective sectors, SPH has retained its strong foothold in the print sector, whereas MCS remains as the dominant broadcaster. The exclusivity given to Singapore Cable Vision (SCV) as the sole provider of pay television services ended on June 30, 2002. In 2003, the Media Development Authority conducted a tender for a second pay television license but there was no taker.

Banking

In 1999, the government embarked on a five-year program to liberalize access by foreign banks to Singapore's domestic market. Since then, the government has removed the 40% ceiling on foreign ownership of local banks, although it has reiterated that it is not prepared to approve any foreign acquisition of a local bank, and acquisition of 5%, 12% or 20% or more of the shares or voting power of a local bank requires the approval of the Minister in charge of the Monetary Authority of Singapore (MAS). Also, as part of the liberalization program, the government has granted "qualifying full bank" (QFB) licenses to six foreign banks. A QFB license currently allows these banks to operate

up to 15 customer service locations (branches or off-premise ATMs), up to ten of which can be branches; to relocate freely existing branches; and to share ATMs among themselves. They can also provide electronic funds transfer, point-of-sale debit services, accept Central Provident Fund (CPF) fixed deposits and provide Supplementary Retirement Scheme and CPF Investment Scheme accounts. In December 2002, the government removed the 20 aggregate foreign shareholding limit on finance companies, although officials say they do not intend to allow a foreign firm to acquire a local finance company. Between December 2001 and May 2003, MAS awarded 20 Wholesale Bank licenses, thereby completing a major part of the second phase of the banking liberalization program.

In June 2004, the Government announced further liberalization measures in the domestic retail banking sector. Effective January 1, 2005, QFBs will be permitted to have up to 25 service locations (versus the current 15). In addition, effective immediately, they will be allowed to negotiate with local banks to let their credit card holders obtain cash advances through the local banks' ATM networks.

Despite liberalization, foreign banks in the domestic retail banking sector still face significant restrictions and are not accorded national treatment. Aside from the limit on the number of foreign QFBs and their customer service locations, the foreign QFBs are not allowed to access the local banks' ATM networks, a major competitive disadvantage, although they can share ATMs among themselves and (as noted above) can now negotiate with the local banks to allow their card holders to obtain cash advances. Customers of foreign banks will still not be able to are also unable to access their accounts for transfers or bill payments at ATMs operated by banks other than their own. Local retail banks do not face similar constraints. Nevertheless, QFBs have made significant inroads in retail banking, with substantial market share in products like credit cards, personal and housing loans.

The US-Singapore FTA will remove the limits on the number of QFB and wholesale bank licenses issued to U.S. banks, the number of customer service locations operated by U.S. QFBs, and access to the local ATM network, according to the following timetable:

- [lift restrictions on US QFBs' access to local banks' ATM networks for US QFBs that operate as local subsidiaries from July 2006 and for US QFBs that operate as branches from January 2008.](#)

- Allow up to 30 locations for US QFBs from January 2004; unlimited number of locations for US QFBs from January 2006.
- lift quota on number of US QFB licenses from July 2005.
- lift quota on number of number of US Wholesale Bank licenses from January 2007.

Securities and Asset Management

As of January 2002, all trading restrictions formerly placed on foreign-owned stockbrokers were removed. Legislation which took effect in October 2002 allows for the direct registration of foreign mutual funds, provided the prospectus and the fund are approved by the MAS. Formerly, foreign mutual funds could only be offered through Singapore funds (with a Singapore manager and Singapore trustee) set up to invest into those foreign mutual funds. In practice, this means that foreign mutual funds had to be registered twice, once in the country of origin and again in Singapore. The US-Singapore FTA has relaxed conditions that foreign asset managers must meet in order to offer products under the CPF Investment Scheme.

Legal Services

Foreign law firms with offices in Singapore face significant restrictions. They are unable to practice Singapore law, cannot employ Singapore lawyers to practice Singapore law, and cannot litigate in local courts. In general, foreign law firms and foreign lawyers can only advise clients on the laws of their home country or international law; most foreign law firms have set up offices in Singapore mainly to advise multinational clients on third country matters or financial transactions in Singapore's offshore market. In June 2004, the Singapore Parliament passed legislation allowing foreign lawyers to represent parties in arbitration in Singapore, without the need for a Singapore attorney to be present.

U.S. law firms can only provide legal services in relation to Singapore law through a Joint Law Venture or Formal Law Alliance with a Singapore law firm, subject to a series of conditions and requirements. Joint law ventures can practice in areas of legal practice mutually agreed between the law firms constituting the Joint Law Venture. Foreign lawyers in such Joint Law Ventures may practice only in those areas of Singapore Law relating to banking, finance or corporate work if they are registered to do so by the Attorney General, but they are not allowed to do litigation. Formal Law Alliances allow foreign lawyers to prepare all the documents in a transaction involving the law or regulatory regime of

more than one country or jurisdiction, but any legal opinion relating to Singapore law must be given by a Singapore lawyer who has in force a practicing certificate. The US-Singapore FTA has relaxed some conditions on the forming of Joint Law Ventures and Formal Law Alliances between U.S. and Singapore law firms.

With the exception of law degrees from certain UK/Australian/New Zealand universities, no foreign university law degrees are recognized for purposes of admission to practice law in Singapore. The US-Singapore FTA will result in Singapore recognizing degrees from four U.S. law schools.

Engineering and Architectural Services

Firms providing professional engineering services to the local building and construction industry also face restrictions. While engineering firms can be 100% foreign-owned, a majority (formerly the Chairman and two-thirds) of the firm's board of directors must comprise engineers, architects, or land surveyors registered with local professional bodies. Professional engineering work in Singapore must be under the control and management of a director of the corporation who: (1) is a registered owner of at least one share of the corporation if it is an unlimited corporation; (2) is a registered professional engineer in Singapore; and (3) has a valid practicing certificate. In the case of a partnership, only registered engineers may have a beneficial interest in the capital assets and profits of the firm, and the business of the partnership must be under the control and management of a registered professional engineer in Singapore. Similar requirements apply to architectural firms.

Real Estate

There are restrictions on foreign ownership of real estate in Singapore. Under the Residential Property Act, foreigners may purchase condominiums or any unit within a building of six or more levels, but are not permitted to own landed homes (houses) and apartments in buildings of fewer than six stories, unless approval is first obtained from the Minister of Law. Such approvals are based on criteria such as an applicant's economic contribution to Singapore, and are granted very selectively; an example where approval may be granted is a foreign MNC buying a property to house its senior executives. There are no restrictions on foreign ownership of industrial and commercial real estate. Government policy to ensure an ethnic balance within public housing complexes may impose ethnically-based restrictions on the resale of subsidized apartments. This policy can have the effect of considerably reducing the pool of potential buyers,

creating problems for owners trying to sell their apartment.

SCREENING MECHANISMS

There is no overarching vetting requirement for foreign investment, although investments in certain sectors require the advance approval of certain regulatory agencies. For example, telecom firms must be licensed by the Infocommunications Development Authority (IDA), while firms in the financial services sector require approval by the Monetary Authority of Singapore (MAS). In both cases, license approval is not automatic, and may depend on agreement to performance requirements or commitments to transfer certain additional functions to Singapore. MAS meets with applicants both before and during the period of documentary processing, to discuss their applications. IDA does likewise for Facilities-Based Operator (FBO) applicants, and publishes all its licensing criteria for both FBOs and Services-Based Operators (SBOs).

CONVERSION AND TRANSFER POLICIES

Singapore places no restrictions on reinvestment or repatriation of earnings and capital, and maintains no significant restrictions on remittances, foreign exchange transactions and capital movements. The US-Singapore FTA reflects the shared commitment of the U.S. and Singapore to the free transfer of capital, unimpeded by controls. *(Note: See the section on Efficient Capital Markets for a discussion of certain restrictions on the borrowing of Singapore Dollars (SGD) for use offshore.)*

EXPROPRIATION AND COMPENSATION

To date, there have been no significant disputes between the government and foreign investors. The government has not taken expropriatory actions against foreign investors and there are no laws that force foreign investors to transfer ownership to local interests.

Singapore has signed investment promotion and protection agreements with a wide range of countries (see "Bilateral Investment Agreements," below). These agreements mutually protect nationals or companies of either country against war and non-commercial risks of expropriation and nationalization for an initial period of 15 years and continue thereafter unless otherwise terminated.

The US-Singapore FTA contains strong investor protection provisions. Where it relates to expropriation and due process, provisions are in place for fair market value compensation for the expropriated investment.

DISPUTE SETTLEMENT

Singapore has institutionalized and internationalized arbitration through the creation of arbitration bodies and ratification of international conventions. The Singapore International Arbitration Center (SIAC), a non-profit organization, was set up in 1991 to promote the settlement of disputes by arbitration and conciliation. With effect from May 3, 2002, Singapore granted tax exemption on income derived by non-resident individuals acting as arbitrators for arbitration work done in Singapore, making such income tax-free in Singapore. In April 2003, the SIAC formed an alliance with the Singapore Business Federation to expedite commercial dispute resolution through arbitration. Mediation or conciliation is also actively promoted in Singapore by the Singapore Mediation Center (SMC) which has a high rate of success in settlement of disputes including those involving foreign investors. Both the SMC and the Subordinate Courts have also developed virtual Internet-based dispute resolution processes.

In Oct 2001, Singapore adapted the UNCITRAL Model Law for domestic arbitration, through the enactment of the Arbitration Act 2001. The International Arbitration Act was also amended on October 2001 to ensure that the Act remains consistent with internationally recognized principles of arbitration law. Singapore ratified the recognition and enforcement of Foreign Arbitration Awards (New York, 1958) on August 21, 1986; and the International Convention on the Settlement of Investment Disputes on November 13, 1968.

An alternative dispute resolution process for Internet domain names registered in Singapore was also established in 2001. Called the Singapore Domain Name Dispute Resolution Policy (SDRP), it is modeled after ICANN's UDRP (Uniform Domain Name Dispute Resolution Policy).

All core obligations of the US-Singapore FTA will be subject to the dispute settlement provisions of the Agreement. The dispute settlement procedures promote compliance through consultation and trade-enhancing remedies, rather than rely solely on trade sanctions. The procedures also set new and higher standards of openness and transparency.

PERFORMANCE REQUIREMENTS

In general, Singapore complies with WTO TRIMS obligations. However, in a number of past cases the approval of licenses in the facilities-based telecom sector and the retail banking sector has been conditioned on performance requirements or the transfer/development of certain functions to Singapore. The US-Singapore FTA prohibits and removes certain performance-related

restrictions on US investors, such as limitations on the number of customer service locations for the retail banking sector.

In all cases where a foreign investor requests investment incentives, the company's track record, the amount of its investment, and its contributions to Singapore's goal of becoming a knowledge-based economy become important considerations in the selection process.

There are no discriminatory or preferential export or import policies affecting foreign investors. The government does not require investors to purchase from local sources or specify a percentage of output for export. The government also does not require local equity ownership in the investment. There are no general rules forcing the transfer of technology. Foreign investors face no requirement to reduce equity over time and are free to obtain their necessary financing from any source.

Employment of host country nationals is not required. Visa and residency policies are generally foreign-investor friendly. While the government discourages dependency on unskilled foreign labor (by setting quantitative limits and imposing special monthly levies), it actively seeks to attract highly-skilled foreigners at two levels. One by offering incentives to companies such as a double tax deduction on approved hiring and relocation expenses related to hiring talent from abroad; and two, by encouraging foreign individuals to work in Singapore through schemes such as the EntrePass, which is aimed at encouraging entrepreneurs to set up businesses in Singapore.

RIGHTS TO PRIVATE OWNERSHIP AND ESTABLISHMENT/INCENTIVES

Foreign and local entities may easily establish, operate, and dispose of their own enterprises in Singapore. Except for representative offices, where foreign firms maintain a local representative but do not conduct commercial transactions in Singapore, there are no restrictions on carrying out remunerative activities.

All businesses in Singapore must be registered with the Accounting and Corporate Regulatory Authority. Foreign investors can operate their businesses in one of the following forms:

- **Sole proprietorship:** an individual operating as a sole trader regulated under the Business Registration Act with a manager who can be a Singapore Citizen or foreigner with right of residence in Singapore (e.g. Employment Pass holder or Singapore Permanent resident);

- **Partnership:** two to 20 persons, regulated under the Business Registration Act;
- **Incorporated company:** which could be a private or public company limited by shares or guarantee, or as an unlimited company regulated by the provisions of the Companies Act;
- **Foreign company:** registered as a branch of the parent company under the Companies Act but not incorporated as a Singapore company; or
- **Representative office:** offices of foreign corporations, which undertake promotional and liaison activities on their parent company's behalf. They must not engage in business, conclude contracts, provide consultancy for a fee, undertake transshipment of goods, or open or negotiate any letters of credit directly or on behalf of their parent companies.

Private businesses, both local and foreign, compete on a generally equal basis with government-linked companies (GLCs), although some observers speculate that government-linked corporations have benefited from cheaper financing due to an implicit government-guarantee. Government officials reject such assertions, saying the government does not interfere with the operations of the GLCs, or grant them special privileges, preferential treatment or hidden subsidies, and asserting that GLCs are subject to the same regulatory regime and discipline of the market as all other private sector companies. However, many observers have been critical of cases where GLCs had entered into new lines of business, or where government agencies have corporatized certain functions, in both cases entering into competition with already existing private businesses.

PROTECTION OF PROPERTY RIGHTS

Singapore's legal system is based on UK law and offers effective means for enforcing property rights. Common law protects and facilitates the acquisition and disposition of all property. Secured interests in property are recognized and enforced. Intellectual property (IP) protection has improved significantly since the late 1990s, leading to Singapore's removal from the U.S. Special 301 Watch List in April 2001. Nevertheless, some problems have remained, including the availability of pirated optical discs, use of unlicensed software by businesses, the transshipment of pirated material through Singapore, and a burdensome process to get infringing material removed from Internet sites. The

US-Singapore FTA addresses these and other issues and provide enhanced protection for U.S. rights owners. Local law enforcement agencies say they work closely with content providers to shut down any sites advertising infringing articles for sale. While not an FTA commitment, in September 2002 Singapore set up a specialized court (IP Court), which comes under the Singapore Supreme Court, to deal with IP disputes.

On enforcement, although the production of pirated material and blatant storefront piracy have been sharply reduced (piracy rates for motion pictures and music are now around 20%), pirated optical discs and counterfeit goods continue to be available from vendors in some street markets, outside metro stations, and other high pedestrian locations. The Intellectual Property Branch of the Singapore Police is working to address such activities. One of the strategies adopted by the Branch includes working with operators of street markets to stamp out such sales. In 2003, it seized S\$33 million (US\$19 million) of such material, but targeting the highly mobile pirates is a challenge.

The software piracy rate in Singapore, while among the lowest in Asia, remains largely static, and is almost double the level in the U.S. The absence of criminal penalties for the use of unlicensed software means that many businesses use unlicensed software, resulting in estimated losses by the business software industry of over \$30 million annually. Under the US-Singapore FTA, Singapore would rectify this problem by amending its law. In addition, Singapore has enacted a new law (effective July 1, 2004) to provide its authorities greater control over the manufacturing of optical discs; however there are concerns about the scope of the control regime and its effectiveness.

Some IP owners assert that Singapore's "self-help" policy on IPR enforcement, which allows IP rights holders to self-initiate raids and prosecute pirates, is flawed. They charge that procedures have the effect of treating IP infringement differently than other theft crimes. Government officials counter that some IP rights holders find the system useful. Under the US-Singapore FTA, Singapore has agreed to enhance its IP enforcement efforts, including that the government will continue to assume primary responsibility for enforcement.

Until recently, most educational institutions (the majority public entities) were out of compliance with their legal obligations to pay royalty fees to publishers in exchange for the right to duplicate copyrighted printed works for use in course materials. Since 2002, the principal universities and polytechnics, along with the Ministry of Education, reached agreements with publishers to pay such compensation.

Although it is a major transshipment and transit point for sea and air cargo, Singapore does not collect information on the contents and destinations of most transshipment and transit trade, which account for 80% of cargo coming through Singapore. This lack of information prevents the use of modern customs enforcement techniques, such as risk analysis and profiling, thereby making enforcement against transshipment or transit trade in illegal goods, including infringing products, extremely difficult. Pursuant to commitments under the US-Singapore FTA, Singapore passed legislation in November 2003 to provide enhanced authority to share information with customs authorities of its FTA partners, including the U.S. It is unclear, however, whether Singapore law provides for the seizure of infringing products that are being transshipped or are in transit.

The US-Singapore FTA will enhance Singapore's legal framework to provide greater protection for digital works. Singapore agreed to modify its requirements and procedures for removing infringing material from Internet sites. Singapore also agreed to accede to the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, which together set the basic standards for protecting digital content, by December 31, 2004.

The US-Singapore FTA also ensures that government marketing approval agencies will not grant approval to patent-violating products. It will also protect against imports of pharmaceutical products without the patent-holder's consent by allowing lawsuits when contracts are breached, if these products have previously not been sold or distributed in Singapore.

There is no specific legislation in Singapore on trade secrets. Rather, investors' commercially valuable proprietary information is protected under common law by the Law of Confidence. The US-Singapore FTA protects test data and trade secrets submitted to the government for the purpose of product approval will be protected against disclosure for a period of five years for pharmaceuticals and ten years for agricultural chemicals.

TRANSPARENCY OF THE REGULATORY SYSTEM

The Singapore government promotes its regulatory environment as business-friendly, with transparent and clear regulations. Tax, labor, banking and finance, industrial health and safety, arbitration, wage and training rules and regulations are formulated and reviewed with the interests of foreign investors and local enterprises in mind. A Rules Review Panel, comprising top civil servants, oversees a process that will review all rules and regulations by March 2005, and thereafter

every five years. A standing Pro-Enterprise Panel, comprising high level public sector and private sector representatives, looks into feedback from businesses on regulatory issues

With some important exceptions, Singapore traditionally did not have a system whereby proposed regulations are published for public comment in a government gazette, although, in general the government usually consulted privately with relevant stakeholders prior to implementing any new law or regulation. However, in April 2003, the Singapore government established a new centralized Internet portal (<http://app.feedback.gov.sg/asp/ocp/ocp01a.asp>) to seek feedback on selected draft legislation and regulations, a process that is being used with increasing frequency. Local laws give regulatory bodies wide discretion to modify regulations and impose new conditions, but in practice agencies use this in a positive way, such as adapting incentives or other services on a case-by-case basis to meet the needs of foreign companies.

The US-Singapore FTA will enhance regulatory transparency, by requiring regulatory authorities, to the extent possible, to consult with interested parties before issuing regulations, provide advance notice and comment periods for proposed rules, and publish all regulations.

Procedures for obtaining licenses and permits are generally transparent and not burdensome, but there have been occasional exceptions. Procedures appear faster in areas considered by the government as national priorities. Investors in areas not considered priorities, or in new areas that may be unfamiliar to the government, may experience a longer process. To reduce regulatory burden from licenses, an online licensing portal has been launched to provide a one-stop application point for multiple licenses: <http://licences.business.gov.sg/>

EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

Policies in Singapore facilitate the free flow of financial resources. Credit is allocated on market terms, and foreign investors can access credit on the local market, both U.S. dollars, Singapore dollars (SGD), and other foreign currencies. The legal, regulatory and accounting systems are transparent and either already match or are being upgraded to match international norms and best practices.

The Monetary Authority of Singapore (MAS) formulates and implements the country's monetary and exchange rate policy, and supervises and regulates the country's sophisticated financial and capital markets. Since 1998,

MAS has moved away from a regulatory approach based on prescriptive rule-making to one that is risk-focused and disclosure-based. MAS standards in financial supervision are benchmarked against international standards and best practices. The IMF has commended on Singapore's high degree of observance of international standards and codes; and has said in its Financial System Stability Assessment that Singapore's financial sector is resilient and robust. At the same time, the IMF questioned the multiple official roles of the MAS Chairman, and recommended that Singapore move to separate the responsibilities or adopt some other structure that recognizes the potential for conflicts of interest.

The Government has sought to boost the country's asset management industry by placing with external asset managers a significant portion of government reserves managed by MAS and the Government of Singapore Investment Corporation (GIC). Some S\$343.8 billion (US\$196 billion) in funds is now managed in Singapore. The Government moved in the late 1990s to develop an SGD debt market. The total issuance of SGD-denominated corporate debt in 2003 was S\$19.3 billion (US\$11.1 billion).

Singapore's banking system is sound and well-regulated. Total assets of the domestic banking sector were S\$396 billion (US\$233 billion), as of February 2004. Local Singapore banks remain relatively small in Asian terms, but are more profitable and have stronger credit ratings than many of their Asian peers. As at December 2003, global non-bank non-performing loans (NPLs) as a percentage of global non-bank loans were 6.7% (compared with 7.7% in December 2002). Regional country non-bank NPLs as a percentage of regional non-bank loans were 15.9% as at December 2003 (19.4% as at December 2002).

A statutory requirement prohibiting banks from engaging in non-financial business took effect on July 18, 2001. This requires local banks to undertake profound restructuring and divest non-financial assets. In the future, banks will only be able to hold 10% or less in non-financial companies as an "equity portfolio investment."

The Embassy is not aware of any attempts by the private sector or the government to restrict foreign participation in industry standards-setting consortia or organizations; indeed, the participation of foreign investors is often actively solicited.

CORPORATE GOVERNANCE

Singapore authorities have placed an increasing emphasis on corporate governance, generally benchmarking local standards to international best practices.

In December 1999, the Government established three private sector-led committees to review and enhance the existing framework for corporate law and governance - the Corporate Governance Committee (CGC), the Disclosure and Accounting Standards Committee (DASC), and the Company Legislation and Regulatory Framework Committee (CLRFC). The Committees completed their reviews in March 2001, October 2001, and August 2002, respectively. The government has implemented all the recommendations of the CGC and the DASC, while the CLRFC's recommendations are in the process of being implemented.

The Code of Corporate Governance, released in April 2001, came into full effect on January 1, 2003. The Code sets out recommended corporate governance principles and practices in areas such as board composition, board performance, directors' remuneration, accountability, and communication with shareholders. Listed companies are required by the Singapore Exchange (SGX) to disclose and explain any deviation from Code, effective January 1, 2003. The private sector-led Council on Corporate Disclosure and Governance (CCDG) is responsible for regularly updating the Code to ensure it remains relevant and consistent with international practices.

The Securities and Futures Act (SFA), which was fully implemented on October 1, 2002, introduces a host of policy reforms in Singapore's capital markets, moving them to a disclosure-based regime. The SFA requires corporations listed on the Singapore Exchange (SGX) to disclose material information on a continuous basis (previously this was only a quasi-regulatory requirement under the SGX Listing Manual). Failure to disclose will either constitute a criminal offence or give rise to civil liability, and not just a breach of the listing rules. Effective January 1, 2003, listed companies with more than S\$75 million market capitalization are required to do quarterly financial reporting. The SFA imposes a requirement on persons acquiring substantial shareholdings of 5% or more of the voting shares of a listed company, to disclose such acquisitions as well as any subsequent changes in their holdings directly to the Exchange within two business days. The SFA also contains enhanced market misconduct provisions. In particular, liability for insider trading will no longer be dependent upon proof of a person's connection with the company, but upon whether the person traded while in possession of undisclosed price-sensitive information.

Rules on mergers and acquisitions (M&A) are generally aligned with international standards, particularly after the recent release of a revised Code on Takeovers and Mergers. The new Code provides better protection to minority shareholders and more time to consider offers (28 days vice 21 days previously). The Council on

Corporate Disclosure and Governance (CCDG) prescribes accounting standards in Singapore. Formally termed 'Financial Reporting Standards' (FRS), Singapore's prescribed accounting standards are aligned with the accounting standards issued by the International Accounting Standards Board. Companies can deviate from the prescribed accounting standards if such deviations are required to present a 'true and fair' set of financial statements. Singapore-incorporated companies whose shares are publicly traded can use certain alternative standards, such as International Accounting Standards (IAS) or US Generally Accepted Accounting Principles (US GAAP), if they are listed on foreign stock exchanges that require these standards. These companies do not need to reconcile their accounts with FRS. Thus, a listed Singapore-incorporated company that is also listed in the U.S. can prepare its accounts based on US GAAP. It does not need to prepare a parallel set of accounts based on FRS. All other Singapore-incorporated companies must use FRS for financial years beginning on or after January 1, 2003, unless they are exempted by the Accounting and Corporate Regulatory Authority.

POLITICAL VIOLENCE

Singapore's political environment is stable, and there is no history of incidents involving politically-motivated damage to foreign investments in Singapore. The ruling People's Action Party (PAP) has dominated Singapore's parliamentary democracy since 1959, and currently controls 82 of the 84 regularly contested parliamentary seats. Opposition parties, which currently hold two regularly-contested parliamentary seats and one additional seat reserved to the opposition by the constitution, do not usually espouse views that are radically different from the mainstream of Singapore political opinion.

CORRUPTION

Transparency International ranks Singapore as the least corrupt country in Asia, and one of the least corrupt in the world, a view shared by most observers and foreign investors. Singapore has and actively enforces strong anti-corruption laws. The Prevention of Corruption Act and the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act provide the legal basis for government action by the Corrupt Practices Investigation Bureau, an independent anti-corruption agency that reports to the Prime Minister. These laws cover acts of corruption both within Singapore as well as those committed by Singaporeans abroad. When cases of corruption are uncovered, whether in the public or private sector, the government deals with them firmly, swiftly and publicly, as they do in cases where public officials are involved in dishonest and illegal behavior.

Singapore is not a party to the OECD Convention on Combating Bribery, but the Prevention of Corruption Act makes it a crime for a Singapore citizen to bribe a foreign official or any other person, whether within or outside Singapore.

BILATERAL INVESTMENT AGREEMENTS

Singapore has signed Investment Guarantee Agreements (IGA's) with ASEAN member nations, the Belgo-Luxembourg Economic Union and the following 29 economic partners: Bahrain, Belarus, Bulgaria, Cambodia, Canada, China, the Czech Republic, Egypt, France, Germany, Hungary, Laos, Latvia, Mauritius, Mongolia, The Netherlands, Pakistan, Peru, Poland, the Riau Province of Indonesia, Slovenia, Sri Lanka, Switzerland, Taiwan, the United Kingdom and the United States, Uzbekistan Vietnam and Zimbabwe. These agreements mutually protect nationals or companies of either country against war and non-commercial risks of expropriation and nationalization.

The US-Singapore FTA provides important protections for investors, and will protect all forms of investment. The Agreement guarantees U.S. investors treatment no less favorable than Singaporean investors or any other foreign investor, except in certain sectors that are specifically exempted. This so-called "negative list" approach is the most comprehensive way to protect the interests of U.S. investors in Singapore. Singapore has tax treaties with a number of countries, but not with the U.S.

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

Under a 1966 investment guarantee agreement with Singapore, the U.S. Overseas Private Investment Corporation (OPIC) offers insurance to U.S. investors in Singapore against currency inconvertibility, expropriation and losses arising from war. Singapore became a member of the Multilateral Investment Guarantee Agency (MIGA) in 1998.

LABOR

As at June 2003, Singapore's labor market totaled 2.15 million, including nearly half a million unskilled and semi-skilled foreign workers and about 70,000 foreign professionals. Local labor laws are flexible, allow for relatively free hiring and firing practices. Either party can terminate employment by giving the other party the required notice.

Labor-management relations in Singapore are excellent. About 29% of the workforce is unionized. The vast

majority of unions are affiliated with the National Trades Union Congress (NTUC), which maintains a symbiotic relationship with the ruling party. Although workers, other than those employed in the three essential services of water, gas and electricity, have the legal right to strike, there has not been any strike since 1986. Industrial disputes, when they exist, are usually settled at the enterprise level or through mediation by the government. When this fails, the matter is decided by the Industrial Arbitration Court (IAC), whose rulings are binding. Once the IAC recognizes a dispute, strikes or lockouts are illegal under the Trade Disputes Act.

Singapore has no minimum wage law; the government follows a policy of allowing free market forces to determine wage levels. Singapore has a flexible wage system in which the National Wage Council (NWC) recommends non-binding wage adjustments on an annual basis, and largely based on prevailing economic and employment conditions. The NWC is a tripartite body comprising a Chairman and representatives from the Government, employers and unions. The 2003/2004 NWC comprises of 15 members: the Chairman, five union representatives, five employer representatives, and four Government representatives. The NWC recommendations apply to all employees in both domestic and foreign firms, and across the private and public sectors. While the NWC wage guidelines are not mandatory, they are widely implemented.

The level of implementation is generally higher among unionized companies compared to non-unionized companies.

A tripartite taskforce, comprising representatives of the Government, union and employers, recommended in 2003 measures to enhance wage flexibility and competitiveness. The Government hopes that this will replace the need to reduce employers' contribution to the Central Provident Fund (CPF) in severe economic downturn to help companies reduce wage costs. The Government hopes to achieve wage flexibility and competitiveness achieved by, firstly, getting employers to change their wage systems from a seniority-based to one which is based on the value of the jobs and the employees' contribution, and secondly, by adopting a structure of basic wage plus a variable component large enough to absorb any sudden economic shock. The guidelines for the wage structure are: rank-and-file employees - 70% basic wage (BW) and 30% variable component (VC); middle management - 60% BW and 40% VC; senior and top management - 50% BW and 50% VC.

The government places a ceiling on the ratio of unskilled/semi-skilled foreign workers to local workers that a company can employ, and charges a monthly levy

for each unskilled or semi-skilled foreign worker. At the same time, the government provides incentives and assistance to firms to automate and invest in labor-saving technology.

With effect from July 1, 2004, firms pay a levy equivalent to one percent of wages paid to employees earning S\$1,800 per month (about US\$1,000) or less, to the Skills Development Fund (SDF), a pool from which the Government draws to provide incentives and grants for manpower training.

FOREIGN TRADE ZONES/FREE TRADE ZONES

Singapore has eight free-trade zones (FTZs) for seaborne cargo and two for airfreight. The FTZs may be used for

storage and repackaging of import and export cargo and goods transiting Singapore for subsequent re-export. Manufacturing is not carried out within the zones. Foreign and local firms have equal access to the FTZ facilities.

FOREIGN DIRECT INVESTMENT STATISTICS

The United States is Singapore's leading foreign investor, and current surveys estimate that there are over 1,300 U.S. firms in Singapore. According to U.S. Department of Commerce statistics, U.S. firms (manufacturing and services) had cumulative total investments in Singapore in 2002 of US\$61.4 billion.

FOREIGN DIRECT INVESTMENT STATISTICS

TABLE A
STOCK OF FOREIGN DIRECT INVESTMENT IN SINGAPORE BY COUNTRY
(As at Year-end Historical Cost
(US\$ Million)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Total Foreign Direct Investment	101,343	112,571	121,228	135,890
United States	14,880	18,373	19,941	19,722
Canada	2,511	1,772	1,720	1,534
Australia	1,832	1,880	1,465	1,554
New Zealand	99	120	106	118
Europe	37,590	42,011	47,229	54,036
European Union	27,104	30,440	36,249	43,644
France	2,195	2,841	2,512	2,881
Germany	1,409	2,443	3,452	4,167
Netherlands	13,731	16,838	19,423	13,823
United Kingdom	7,121	5,163	7,986	18,948
Other European Union Countries	2,648	3,155	2,876	3,824
Switzerland	9,423	9,307	8,427	8,572
Other European Countries	1,064	2,264	2,552	1,821
Asian Countries	27,602	28,910	28,034	32,648
China	581	538	493	606
Hong Kong	2,812	3,569	3,166	3,328
Japan	16,885	16,865	16,092	19,065
South Korea	183	171	17	559
Taiwan	1,381	1,953	2,562	2,891
India	169	153	189	214
Asean	5,399	5,365	5,281	5,646
Brunei Darussalam	175	181	192	212
Indonesia	616	954	872	1,028
Malaysia	3,722	3,216	3,286	3,375
Philippines	449	599	561	536
Thailand	421	390	360	482
Vietnam	4	5	6	7
Cambodia	0	0	0	0
Myanmar	12	20	4	4
Other Asian Countries	193	296	235	339
Caribbean/Latin America	15,885	18,088	20,980	24,520
Other Countries Nec	943	1,415	1,753	1,758

Note: Preliminary data for 2002

Source: Singapore Department of Statistics

TABLE B
STOCK OF FOREIGN DIRECT INVESTMENT IN SINGAPORE BY INDUSTRY
(As at Year-end Historical Cost)
(US\$ Million)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Total Foreign Direct Investment	101,343	112,571	121,228	135,890
Agriculture & Fishing	25	25	21	29
Mining & Quarrying	5	-22	1	0
Manufacturing	34,607	40,840	44,403	49,099
Food, Beverages & Tobacco	303	262	274	272
Textiles, Wearing Apparel & Leather	11	44	57	56
Wood & Wood Products	3	2	0	0
Paper & Paper Products, Printing & Publishing	406	564	745	990
Chemicals & Chemical Products	8,593	9,963	11,946	15,338
Petroleum & Petroleum Products	2,800	3,991	6,226	7,904
Rubber & Plastic Products	448	585	590	651
Basic Metals	28	21	19	16
Fabricated Metal Products	596	633	650	707
Machinery & Equipment	1,398	1,417	1,777	1,980
Electrical Machinery & Apparatus	807	967	993	1,046
Electronic Products & Components	17,266	20,145	18,880	17,348
Transport Equipment	776	901	882	1,022
Instrumentation, Photographic & Optical Goods	587	704	701	899
Others	586	641	663	869
Construction	903	1,219	906	1,070
Commerce	16,298	17,071	17,588	21,640
Wholesale Trade	14,326	15,431	15,530	19,320
Retail Trade	734	476	849	1,016
Restaurants & Hotels	1,238	1,164	1,208	1,304
Transport, Storage & Communications	3,824	4,973	5,296	6,150
Water Transport	1,085	1,557	813	983
Storage & Warehousing	2,315	3,298	4,249	4,803
Others	424	118	234	365
Financial & Insurance Services	38,456	40,427	44,507	48,004
Financial Services	37,069	39,149	42,980	46,307
Banks	4,861	5,120	4,721	4,784
Finance Companies	177	64	18	0
Investment Holding Companies	28,844	30,462	34,869	37,719
Other Financial Services	3,188	3,503	3,371	3,804
Insurance Services	1,386	1,278	1,527	1,696
Insurance Companies	1,357	1,227	1,469	1,607
Other Insurance Services	30	51	57	89
Real Estate	3,374	3,704	3,338	3,656
Business Services	3,837	4,399	4,824	5,955
Social & Personal Services	5	-63	345	289

Note: Preliminary data for 2002

Source: Singapore Department of Statistics

TABLE C

STOCK OF DIRECT INVESTMENT ABROAD BY COUNTRY**(As at Year-end Historical Cost)****(US\$ Million)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Total Direct Investment	55,654	56,766	74,961	85,374
Asia	32,312	33,233	36,513	40,212
Asean	13,087	13,612	15,192	17,116
Brunei	51	57	34	30
Indonesia	3,306	3,154	3,972	4,683
Malaysia	5,112	5,633	5,972	6,816
Philippines	1,373	1,476	1,524	1,588
Thailand	1,980	2,018	2,432	2,592
Vietnam	690	618	573	660
Cambodia	91	65	121	130
Myanmar	487	594	565	617
Laos	-2	-3	-1	-1
Hong Kong	6,246	4,914	6,255	7,064
Taiwan	1,218	2,063	1,945	1,949
China	8,581	9,073	9,219	9,861
Japan	632	574	792	892
South Korea	1,010	1,388	1,482	1,555
India	446	511	407	480
Other Asian Countries	1,093	1,099	1,221	1,296
Europe	7,760	5,160	6,830	8,089
European Union	7,286	4,133	5,608	6,478
Netherlands	1,357	686	700	667
United Kingdom	2,033	2,832	3,683	3,988
France	55	60	88	152
Other Eu	3,841	555	1,137	1,670
Switzerland	33	122	242	265
Other European Countries	441	906	980	1,346
United States	2,519	3,573	3,919	4,659
Canada	153	165	30	20
Australia	1,479	1,436	1,376	1,803
New Zealand	314	500	277	401
Caribbean/Latin America	7,035	7,387	21,614	24,782
Other Countries nec	4,082	5,311	4,402	5,408

*Note: Preliminary data for 2002**Source: Singapore Department of Statistics*

TABLE D
GDP AND FDI FIGURES, 1999-2002

(US\$ Million)

<u>Year</u>	<u>GDP at Current Market Price</u>	<u>FDI</u>	<u>FDI as % to GDP</u>
1999	83,803	101,343	1.21
2000	92,210	112,571	1.22
2001	83,240	121,228	1.46
2002	91,025	135,890	1.49

Note: Preliminary data for 2002

Source: Singapore Department of Statistic

TABLE E
TOP TEN FOREIGN INVESTORS IN SINGAPORE BY NATIONALITY
(April 2002 to End March 2003 at Market Value)

UNITED STATES

(US\$ Million)

<u>COMPANY</u>	<u>TYPE OF BUSINESS</u>	<u>TOTAL ASSETS</u>	<u>TOTAL SALES</u>
J. P. Morgan Securities	Investment	16,013	400
Motorola Electronics	Electronics	2,629	1,325
Citicorp Investment Bank	Banking	1,792	107
Microsoft Operations	Electronics	1,167	2,283
GE Pacific	Investment	1,117	571
Solelectron Technology	Electronics	937	777
Micron Semiconductor	Electronics	877	1,372
Agere Systems	Electronics	876	2,121
Maxtor Peripherals	Electronics	682	2,302
Caltex Trading	Petroleum	591	2,056

JAPAN

(US\$ Million)

<u>COMPANY</u>	<u>TYPE OF BUSINESS</u>	<u>TOTAL ASSETS</u>	<u>TOTAL SALES</u>
Sony Electronics	Electronics	1,173	2,034
Toshiba Capital	Finance	1,146	6,122
Fuji Xerox	Office Equipment	834	647
Hitachi Asia	Electronics	832	2,676
Sumitomo Coprn.	Trading	467	2,386
Kumiai Navigation	Ship Owning	347	79
Nissho Iwai Int'l	Trading	333	337
Hitachi Nippon Steel			

Semiconductor	Electronics	318	159
Pioneer Electronics	Electronics	281	1,109
AVX/Kyocera	Electronics	269	194

-
EUROPE
(US\$ Million)

<u>COMPANY</u>	<u>COUNTRY</u>	<u>TYPE OF BUSINESS</u>	<u>TOTAL ASSETS</u>	<u>TOTAL SALES</u>
Glaxo Wellcome	U.K.	Chemicals	10,097	2,278
Shell Eastern	Netherlands	Chemicals	5,791	4,843
Prudential Assurance	U.K.	Insurance	4,385	1,067
Credit Suisse First Boston	Switzerland	Banking	3,049	65
Shell Treasury Centre	Netherlands	Finance	2,457	66
Shell Eastern Trading	Netherlands	Petroleum	2,360	18,902
BP Singapore	U.K.	Petroleum	1,677	6,835
Danone Asia	France	Investment	1,566	1,879
Infineon Technologies	Germany	Electronics	644	1,770
APL Co.	Denmark	Shipping	632	3,232

MALAYSIA
(US\$ Million)

<u>COMPANY</u>	<u>TYPE OF BUSINESS</u>	<u>TOTAL ASSETS</u>	<u>TOTAL SALES</u>
Kuok Singapore	Trading	1,084	374
Sime Singapore	Trading	377	542
Sime Darby	Trading	165	67

Note:

Exchange rate for March 2002 (end of period) was S\$1.7656 per US\$1.

Source: "The Singapore 1000, 2003/2004", Datapool (S) Pte. Ltd

ANNEX: INCENTIVES

INCENTIVES ADMINISTERED BY THE MONETARY AUTHORITY OF SINGAPORE (MAS)

Banking

A) Tax Incentive Scheme for Asian Currency Unit (ACU) Income: this Scheme encourages banks and merchant banks to undertake offshore banking activities with non-residents by providing concessionary tax rate of 10% on income earned from such activities. This incentive ceased on December 31, 2003 and has been replaced by the Financial Sector Incentive (FSI) Scheme (see sub-paragraph (O)).

Insurance

B) Tax Incentive Scheme for Offshore Insurance Business: this Scheme allows a concessionary tax rate of 10% to be granted to insurance companies on incomes derived from writing offshore insurance business, offshore income investing offshore insurance funds and shareholders' funds used to support offshore insurance business.

C) Tax Exemption Scheme for Offshore Marine Hull & Liability Insurance Business: this Scheme aims to encourage all general direct insurance and reinsurance companies in Singapore to tap the insurance potential of the shipping communities in the Asia Pacific region. It provides tax exemptions for income derived from writing offshore marine hull and liability risks, as well as offshore income; these were derived from investing offshore marine hull & liability insurance funds and shareholders' funds which were in turn, used to support the offshore marine hull & liability insurance business.

D) Abolition of Withholding Taxes on Financial Guaranty Insurance Contracts: this is to promote financial guaranty business, and claim payments made under financial guaranty insurance policies by approved financial guaranty insurers to non-residents will be exempt from withholding tax.

E) Tax Deduction for Special Reserves of General Insurance Companies: this allows general insurance companies to claim tax deduction on special reserves (commonly known as contingency reserves) set aside for certain offshore risks.

Equity Market

F) Tax Incentive Scheme for Equity Capital Market Intermediaries: this Scheme aims to encourage regional securities trading and corporate advisory activities by granting financial institutions:

1. Concessionary tax rate of 10 per cent on income derived from the provision to non-residents' brokerage, custodian services, corporate advisory services, trading in foreign securities, arranging and underwriting foreign securities, as well as corporate advisory services.
2. Concessionary tax rate of 10% on income derived from a loan of foreign securities under a securities lending arrangement.
3. Concessionary tax rate of 5% on income derived from the provision of brokerage, custodian services and trading in foreign securities listed on the Singapore Exchange.
4. Concessionary tax rate of 5% on income from managing the Initial Public Offerings of foreign securities on the Singapore Exchange.

5. Exemption of stamp duty on contracts for loan of securities.

This tax incentive scheme has been replaced by the FSI Scheme (see sub-paragraph (O)) on January 1, 2004.

Derivatives

G) Tax Incentive Scheme for Financial Derivatives: this Scheme was introduced to encourage the growth of the financial derivatives market; and financial institutions may be granted the following incentives:

1. Concessionary tax rate of 10% on income derived from transacting with qualifying parties in financial derivatives denominated in any foreign currency.
2. Concessionary tax rate of 5% on income derived from transacting with qualifying parties in over-the-counter financial derivatives denominated in any foreign currency.
3. Withholding tax exemption on payments to non-residents on over-the-counter financial derivatives denominated in any foreign currency.

The FSI Scheme (see sub-paragraph (O)) has replaced this tax incentive scheme from January 1, 2004.

Asset Management

H) Tax Incentive Scheme for Asset Management: this Scheme grants a concessionary tax rate of 10% on fee income to an approved fund manager (AFM), thereby encouraging them to set up or expand in Singapore. From January 1, 2004, this tax concession will be granted under the FSI Scheme (see sub-paragraph (O)).

I) Investment income earned by foreign investors from funds managed by all fund managers in Singapore is also exempt from Singapore tax.

J) Tax Incentive Scheme for Approved Trustee Companies: this is a concessionary tax rate of 10% granted to companies and financial institutions on selected income streams from trust administration and custodian services they offer in Singapore. Investment income generated by foreign trusts is also exempted from tax.

K) Investment income generated by foreign trusts is also exempted from tax.

Debt Market

L) Tax incentives to encourage origination and trading of debt securities in Singapore:

1. Tax exemption on fee income earned from arranging, underwriting and distributing qualifying debt securities, up to December 31, 2003. From January 1, 2004, this tax incentive has been replaced by the FSI Scheme (see sub-paragraph (O)).
2. Concessionary tax rate of 10% on income earned from trading in debt securities up to December 31, 2003. The FSI Scheme has replaced this tax concession from January 1, 2004.
3. Concessionary tax rate of 10% on interest income from holding qualifying debt securities arranged in Singapore.

4. Withholding tax exemption on interest from qualifying debt securities arranged in Singapore payable to non-residents.
5. Withholding tax exemption on swaps in relation to S\$ bond issues.
6. Issuers need not meet the requirement under S45 of the Income Tax Act to withhold tax on interest paid on qualifying debt securities.

M) Approved Bond Intermediary (ABI) Scheme: the Monetary Authority of Singapore will evaluate a financial institution's debt origination and trading capabilities in Singapore on an overall basis. Once a financial institution has been accorded the ABI status, all debt securities lead managed by it would be treated as qualifying debt securities. The ABI and the qualifying debt securities will enjoy the following tax incentives:

1. The ABI will be exempt from tax on fee income earned from arranging, underwriting and distributing the securities.
2. The debt securities arranged by ABIs will be considered qualifying debt securities and automatically be eligible for the applicable tax incentives. To qualify for the ABI status, financial institutions must have a substantial debt team in Singapore. The ABI status had been extended up to December 31, 2003. Effective January 1, 2004, the FSI Scheme will replace this scheme.

N) Tax Exemption Scheme for Syndicated Facilities: tax exemption is given on fee, interest, commission and other income from arranging, underwriting and participating in syndicated facilities. From January 1, 2004, the income derived from qualifying syndicated facilities will be granted concessionary tax treatment under the FSI Scheme.

Financial Sector Incentive (FSI) Scheme

O) Financial Sector Incentive Scheme: several existing tax incentives schemes (ACU, bond market, derivatives, equity market, syndicated facilities, asset management and operational headquarters' schemes) are merged into this umbrella scheme. The FSI scheme takes effect from January 1, 2004, and this offers 5-10% concessionary tax rates on income derived from its qualifying activities.

General

P) Double Tax Deduction Scheme for Financial Research and Development: this Scheme aims to encourage financial institutions in Singapore to develop new and innovative financial products, by allowing double tax deduction for expenses such as costs of R&D personnel, legal expenses, training costs and consultancy fees.

Q) Tax Incentive Scheme for Operational Headquarters: this Scheme allows financial institutions with substantial international operations a concessionary tax rate of 10% on income derived from providing qualifying headquarters services to overseas related companies and on income derived from treasury activities. This scheme has been replaced by the FSI scheme from January 1, 2004.

R) Tax Incentive Scheme for Finance and Treasury Centers: this Scheme aims to encourage multi-national corporations to use Singapore as a base for conducting treasury management activities by providing a concessionary tax rate of 10% on income derived from provision of finance and treasury services to related companies. Interest payments on debt securities or foreign loans obtained from overseas financial institutions or related companies may also be exempted from withholding tax.

S) Financial Sector Development Fund: the Financial Sector Development Fund (FSDF) was set up to facilitate the development and enhancement of talent and other infrastructure for Singapore's financial center. The FSDF supports the following manpower development schemes:

1. Financial Training Scheme (FTS): to encourage Singapore-based financial institutions to develop the skills and capabilities of their executive staff in key areas of expertise.
2. Training Infrastructure Enhancement Scheme (TIES): to encourage the development of a dynamic training environment that enhances Singapore's competitiveness as an international financial center.
3. Innovation in Financial Technology & Infrastructure Grant (ITIG) Scheme: to encourage innovation in technology in financial services.

INCENTIVES ADMINISTERED BY THE ECONOMIC DEVELOPMENT BOARD (EDB)

A) Pioneer Status: new manufacturing and service investments introducing high-tech skills can enjoy complete exemption from the 20% corporate tax on profits for up to 15 years.

B) Development & Expansion Incentive: this incentive replaces the post-pioneer incentive. Firms that engage in new projects, expand or upgrade operations in Singapore which result in significant economic spin-offs are eligible for a concessionary tax rate for up to 10 years with provision for extensions up to a maximum total of 20 years.

C) Investment Allowance Incentive: companies engaged in qualifying activities (for example, manufacturing, engineering services, research and development activities, construction or projects to reduce consumption of water) are eligible for exemption of taxable income equal to a specified proportion (up to 50%) of new fixed investment. The exempted firms must make the specified investments within five years.

D) Approved Foreign Loan Scheme: a company that takes a minimum loan of S\$ 200,000 (about US\$ 110,000) from a foreign lender to purchase productive equipment will be wholly or partially exempt from withholding tax on the interest payable to the lender.

E) Approved Royalties Incentive: full or partial exemption of withholding tax on royalties is given to eligible companies.

F) Entrepreneurship Investment Incentive: companies eligible for this incentive are startups in the initial stage of developing or exploiting new technology. Investors in the eligible startup company can offset losses incurred through the sale of shares or through the liquidation of the startup company, against their own taxable income

G) HQ Program - EDB aims to establish Singapore as a premier international headquarters hub with a vibrant business eco system to reach out to all types of HQ - big and small, from all industries and all geographies. Under the Headquarters Program, deserving companies that commit to expansion are awarded the International Headquarter Award and Regional Headquarters Award and attendant incentive benefits that are dependent on the size and sophistication of their activities in Singapore.

H) Double Deduction for Research and Development (R&D) Expenses: applicable to manufacturing and service activities engaged in R&D. The project must be carried out in Singapore. Double deduction is allowed for qualifying R&D expenses against taxable income.

I) Research Incentive Scheme for Companies: under this scheme, grants may be offered to support the development of in-house R&D capabilities among Singapore-based companies.

J) Exemption of foreign sourced interest and royalty income for R&D purposes: Foreign sourced interest and royalty income remitted into Singapore will be tax-exempt, provided they are spent on R&D activities (at least 20% must be spent on local R&D activities). The incentive period to be awarded is five years.

K) Innovation Development Scheme: under this scheme, grants may be offered to companies to engage in, and develop capabilities in the innovation of products, processes and applications.

L) Initiatives in New Technology: under this scheme, grants may be offered to companies to support manpower training costs in the application of new technologies, industrial R&D and professional know-how.

M) Integrated Industrial Capital Allowance: Companies in Singapore will be allowed to claim capital allowances on equipment sent overseas for manufacturing purposes.

N) Special GST scheme for 3rd party Logistics Service Providers (3PLSPs): This measure allows 3PLSPs to import goods belonging to themselves for their foreign principals without having to pay GST. It also allows the 3PLSPs to move goods to companies enjoying the Major Exporter Scheme (MES) and other qualifying 3PLSPs without having to impose and collect GST.

O) The Enterprise Challenge (TEC) Scheme: TEC is a S\$20 million fund set up to provide sponsorship and test beds to trial test innovative proposals that have the potential to create new value or bring about significant improvements to the delivery of Singapore public service. TEC funds the trial testing radical, high risk innovations so that its feasibility and practicality can be proven. The purpose of TEC is to encourage creativity, innovation and enterprise among Singaporeans; to spark, develop and drive initiatives that can create new value for the Singapore Public Service and fundamentally improve the delivery of the Singapore public service. For more information, visit www.tec.gov.sg

INCENTIVES ADMINISTERED BY THE INTERNATIONAL ENTERPRISE SINGAPORE

A) Double Tax Deduction (DTD) Scheme: The Double Tax Deduction (DTD) scheme for market development aims to encourage Singapore companies to expand their overseas markets. It allows approved companies to deduct against their taxable income twice the eligible expenses incurred in the following activities as covered by Section 14B of the Income Tax Act:

- Participation in overseas trade fairs/missions either as a group or on a single-company basis
- Participation in approved local trade exhibitions
- Setting up of Overseas Marketing Offices
- Master Licensing and Master Franchising

- Advertising in Approved Local Trade Publications
- Printing of Corporate Brochures. Catalogues for distribution in overseas markets
- Engaging in market development activities, i.e. Market Survey, Feasibility Study, Advertising Campaign, Promotional Campaign, Design of Packaging & Product/Services Certification.

B) Global Trader Program (GTP) : To continue to facilitate and develop international trading activities, IE Singapore launched the Global Trader Program (GTP) in June 2001. The GTP is a merger of the Approved Oil Trader (AOT) and the Approved International Trader (AIT) programs. The program encourages global trading companies to use Singapore as their regional or global base to conduct activities along the total trade value-add chain from procurement to distribution, in order to expand into the region and beyond. Over the years, the program has attracted a vibrant cluster of global trading companies to hub their strategic business functions in Singapore. These companies are key players in their respective industries such as oil trading, petrochemicals, agri-commodities and metals. Companies with GTP status receive a concessionary tax rate of 10% on international trading activities in approved commodities and products.

C) International Marketing Activities Program (IMAP): This is a program that supports the associations by defraying some of the costs involved in putting together overseas business missions or participation at overseas trade shows/exhibitions.

D) International Partners Program: International Partners Program (iPartners) is an IE Singapore initiative that aims to increase Overseas Sales and Access of Singapore based companies through synergistic partnerships with industry leaders that could provide additional marketing channels. Under iPartners, local and foreign industry leaders would be recruited to act as Anchor Companies, whose role is to lead an alliance of other complementary Singapore-based companies. The Anchor Company will assist the alliance by providing market access, helping the alliance adapt products to suit overseas markets and improving the capabilities of its Alliance Partners. Anchor Companies and Alliance Partners can collaborate along the value chains of the same industry to cut down wastage and improve efficiency, and hence be more competitive. They could also form alliances across different industries to offer new products and services. IE Singapore will co-fund the costs of the business development director appointed by the Anchor Company. This person's role is to develop the overseas business for the alliance and ensure the success of the project. For qualified projects, IE Singapore will also co-fund activities that improve the value proposition of the alliance in the overseas markets.

E) Manpower for Internationalization Program: The Manpower for Internationalization Program (MIP) supports Singapore-based companies grow into strong international players by assisting you to groom executives with the ability to innovate, identify international business opportunities and chart internationalization strategies in this dynamic global environment. The program adopts a 3-pronged approach (international skills, international exposure, international strategy) to enlarge and enrich the pool of executives with internationalization skills who, in turn, enhance the competitiveness of Singapore-based companies.

F) Regionalization Finance Scheme: This is a fixed-cost financing program designed to assist Singapore-based companies set up operations overseas. Through this Program, the Government hopes to assist Singapore-based enterprises globalize their operations, sell in the global market place and leverage on global resources to grow.

G) iFinance Consulting Program: This program is specially tailored to assist Singapore-based entrepreneurs prepare their companies for the challenge of doing business overseas. Companies are encouraged to engage professional experts to enable them to make informed decisions and be financially prepared as they venture overseas.

H) Design for Internationalization Program: Design for Internationalization looks at how globalizing companies can boost their competitiveness and service offerings through "Design" - from strategic product developments to a total product experience including differentiated packaging design, marketing design and interior or retail design. IE Singapore will also catalyze companies' creation of new and adapted products for overseas markets. IE Singapore will also catalyze companies' creation of new and adapted products for overseas markets.

I) Branding for Internationalization Program: Recognizing the strategic importance of branding for business expansion, IE Singapore launched its "Branding for Internationalization" Program which is targeted at Singapore-based firms that have the drive to internationalize. IE Singapore will support companies in various ways as they build up their brand names through brand consultancy projects. Working with local as well as overseas consultants and brand centers, IE Singapore will develop applied research beneficial to Singapore-based companies and industries.

INCENTIVES ADMINISTERED BY THE MEDIA DEVELOPMENT AUTHORITY (MDA)

A) Market Development Scheme (MDS): The scheme encourages Singapore-based media companies to seek business opportunities overseas. Media companies can potentially get assistance of up to S\$20,000 per company per annum to offset expenses in overseas business development missions led by MDA, market studies, participation in events and international media markets and business collaboration with overseas companies.

B) TV Content Industry Development Scheme: The scheme aims to help and encourage the Singapore TV production industry to create more high quality Made-by-Singapore TV content for international markets, including Singapore. The scheme applies to TV content-specific projects in various genres. MDA, together with the industry and other investors, assess co-funding arrangements on a project-by-project basis.

C) Digital Content Development Scheme: This scheme aims to seed fund to support the development of innovative ideas and concepts into real content products such as pilot episodes for original TV animation, technical demo for game series and interactive media projects. The level of support for each qualifying project is limited to S\$150,000 and not more than 50% of the total qualifying costs.

D) Digital Technology Development Scheme: The scheme aims to support the development of original and innovative products or processes that lead to significant improvements in bringing value-added services to the broadcasting industry, or that lead to tangible outcomes such as investment for the new product, introduction of new services or adoption of new technology. Funding is provided in the form of a grant to cover up to 50% of the qualifying cost of the project.

Further guidelines and application information are available at MDA's website: <http://www.mda.gov.sg/>

<u>PROGRAMS AND INCENTIVES MANAGED BY INFOCOMM DEVELOPMENT AUTHORITY OF SINGAPORE (IDA)</u>
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As developer of Singapore's infocomm industry, the IDA has put in place programs and initiatives to accelerate the growth of the sector and promote innovation in key emerging technology areas.

Some of the programs include:

- Connected Homes - aims to provide a test-bed environment for the development and deployment of integrated end-to-end solutions for homes. Industry partners are encouraged to collaborate to develop integrated solutions that can be trialed in real home environment.
- iLIUP (infocomm Local Industry Upgrading Program) - promotes strategic and mutually beneficial partnerships between Singapore enterprises and multinational corporations (MNCs) in the infocomm sector.
- Overseas Development Program - facilitates partnerships among Singapore infocomm enterprises and MNCs to accelerate their global competitiveness, establish branding, and gain inroads to overseas markets.
- SAFE (Securing Assets for End-Users) Program - aims to catalyze the growth of Singapore's infocomm security sector. The program will focus on three thrusts - Intellectual Capital Development; Smart Experimentation and Adoption.
- WEAVE (Web Services) - taps on the market potential of Web Services through collaboration with industry partners to grow Singapore's software and IT services industry.
- Wired With Wireless Program - aims to develop Singapore into a 'living lab' and launch pad for wireless development in Asia. Under this program, IDA will collaborate with the industry to identify, develop and launch key projects with industry-wide impact.
- Digital Exchange - aims to develop Singapore into a global hub for the processing, management and distribution of digital assets such as movies (for digital cinema), games, advertisements, video, music, and animation. IDA will work with companies to spearhead industry development efforts to put in place a conducive technical & business environment, R&D and commercialization capabilities, as well as key value added services for the processing, management and delivery of digital assets to the region.
- RFID Development Plan - aims to develop Singapore into Asia's RFID hub. The plan includes effort to align radio frequency spectrum allocation and power output limits with international standards to ensure global interoperability; build infocomm manpower capabilities in exploiting the technology and leverage existing R&D expertise in creating new IP; and collaborate with key industry and cluster players in accelerating adoption.

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Initiatives/Schemes

A) Pilot And Trial Hotspots (PATH) is an industry development initiative by IDA. It aims to accelerate the development of innovative infocomm infrastructure, applications and products by supporting the trial and piloting of emerging infocomm technologies and best-of-breed services. The areas supported under PATH are:

- Digital Exchange - Movies for Digital Cinema, Games, Advertisements, Video, Music, Animation
- Broadband - Content and services; Cross-platform broadband /media products and services ; Model projects showcasing integrated broadband offerings
- Software & Services - Application outsourcing; Application Service Provider; Security; Speech and language; Web services
- Wireless - Location service; Mobile commerce; Wireless multimedia

B) The Competency Centre Program (CCP) was initiated with the aim to accelerate the development of emerging infocomm technologies. The centers act as platforms where global technology providers and Singapore infocomm enterprises would collaborate with the RICs and IHLs to set up infocomm facilities and hosting infrastructure, transfer leading edge technologies and best practices, foster manpower development and conduct proof-of-concept projects.

For more information, details and guidelines, please refer to IDA's website: <http://www.ida.gov.sg/>